

Appendix 2.1

BPA Cost Review Committee Recommendations

Appendix 2-1: Recommendations of the Management Committee for the Cost Review of the Federal Columbia River Power System	Average Annual Reductions, FYs 2002-2006, \$ in millions	
	Total Reductions	Power BL Expense Reductions
1. Further reduce staffing and support costs of power marketing and other PBL functions not directly related to operation of the Federal power system, through efficiency initiatives and reoriented long-term marketing efforts.	14.7	14.7
2. Fund regional conservation market transformation at a level proportional to the percent of regional firm load served by Bonneville, as called for in the Comprehensive Review. Recommended reduction brings the Cost Baseline into line with estimates of the firm power load served by Bonneville. Review the appropriateness of continued Bonneville support no later than 2004.	4.6	4.6
3. Reduce projected legacy conservation contract expenses to reflect historical under-spending. Do not modify or extend existing contracts, except that the State's low-income weatherization contract should be extended consistent with the end of the legacy commitment to utilities. Reduce associated staffing.	2.5	2.5
4. Further reduce funding for the NW Power Planning Council to reflect changes in Bonneville's regional role (i.e., curtail new resource acquisitions), carry out the Council role in power recommended by Comprehensive Review and the continued importance of fish and wildlife issues. Seek additional funding from other sources for Council activities that are of regional scope. Reductions assume one Council representative per state. A process should be carried out to determine both the functions the region wishes the Council to perform and how the functions should be funded.	1.1	1.1
5. Provide funding for costs of the three renewable resource projects that Bonneville currently is planning, and currently planned levels of renewable resource data collection and R&D. Annual net cost above project revenues should not exceed \$15 million per year, including the data collection and R&D costs. No additional renewable resource projects unless Bonneville's costs are recovered fully by project revenue.	2.2	2.2
6. Develop and implement a consolidated, integrated capital/asset management strategy for federal hydro directed at maximizing value, including both financial returns and public benefits. The strategy should encompass the operation and maintenance of the physical assets, a coordinated investment plan, potential consolidation of duplicative administrative support services among FCRPS agencies, and the creation of integrated performance measures. Performance should be measured explicitly and reported publicly, accountabilities established, and incentives created and applied FCRPS-wide. Estimates at right include a combination of reduced O&M expenses from the Cost Baseline and increased revenues from higher production.	Corps: 40.0 Bureau: 8.0	Corps: 40.0 Bureau: 8.0
7. Implement a strategy for WNP-2 that combines aggressive cost management with a flexible response to market conditions and unforeseen costs. Manage annual operating costs to annual revenues achievable at market prices. In BPA's subscription process and upcoming rate case, determine how to allocate the plant's costs in Bonneville rates and market a portion of the Federal Base System (FBS) equivalent to the planned output of WNP-2 priced in a manner that ensures recovery of the plant's operating costs while allowing a lower price for the rest of the FBS,	19.0	19.0

unless legal or other issues prevent doing so. To the extent revenues exceed operating costs, use a portion of the resulting net operating revenues to build up the decommissioning fund. Biennially subject the plant to a market test. Evaluate termination in the event operating costs are projected to exceed revenues significantly if uneconomical at market prices. Estimated reduction includes a combination of reduced O&M expense from the Cost Baseline and potential increased revenues.

Recommendations	Average Annual Reductions, FYs 2002-2006, \$ in millions	
	Total Reductions	Power BL Expense Reductions
8. Further reduce the cost of Bonneville administrative and other internal support service costs including financial, human resources, information management, procurement, strategic planning, public affairs, legal services and other internal service costs, by an aggregate 50 percent from 1996 actual levels. Achieve through benchmarking, adopting "best practices," enterprise software, and outsourcing of non-core functions where economic.	31.7	14.5
9. Obtain legislative changes in the areas of personnel management and procurement to improve administrative flexibility and ability to manage internal costs.	10.0	7.0
10. Further reduce transmission internal O&M expenses through improved efficiencies.	2.5	1.5
11. Conform to Federal Power Act requirements, adjusting and correcting functionalization (allocation) of costs between Power and Transmission BLs.	0.0	30.0
12. Further reduce federal and non-federal debt service expenses through refinancings, greater reliance on variable rate debt, and other debt reduction actions	20.0	20.0
13. Targeted, but unspecified reductions already included in Power Cost Baseline.	(19.4)	(19.4)
TOTAL	136.9	145.7

In addition, the TBL should meet the cost management objectives in its baseline, in particular:

- Obtain operational efficiencies, tighter control on timing and prioritization of capital investments to achieve superior performance compared to the WSCC transmission providers (top one-third);
- Reduce fully allocated hourly costs of transmission maintenance service by 20 to 30 percent by 2001; and
- Increase flexibility of cost structure.